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May 14, 2008

AGENDA ITEM 9a

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Regional Pricing Update
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

To help stabilize CalPERS' health program risk pool, the Board of Administration approved regional pricing for contracting agency members in Basic plans, commencing in 2005 for the following regions: Sacramento/Bay Area; Los Angeles Area; Other Northern; Other Southern; and, Out-of-State (Attachment 1). Staff reports annually on the continued validity of the regions and the counties within each region.

This item reports that, based on our analysis, the current regions and their county compositions are valid for 2009.

Criteria for Changing County Region Assignments

Working with Milliman USA, staff in 2004 developed criteria to help determine when CalPERS should consider changing a county's region assignment. Staff will recommend a change to a county's region, subject to the Board's approval, if the county meets either of the following criteria:

- *a change in relative costs (due to market dynamics) resulting in significantly different costs than nearby counties.* Market dynamics that might impact a county's relative cost factor include:
 - Monopoly provider arrangements,
 - Purchaser coalitions, and/or
 - Changes in negotiating power.

Such market dynamics can have a dramatic impact on costs, as we have seen over the past twenty years.

- *a large enough change in membership to impact costs.* Large changes in a county's membership could signify a shift in the county population as a whole. Large shifts in population density could impact demand and the ability of a region's providers to meet demand, impacting costs.

Most importantly, the county must demonstrate a persistent change in these criteria over time, because significant cost changes in a single year's time may be a one time occurrence, resulting from insurance variation (a catastrophic need for a very small number of members).

Until a sufficient number of years of cost factor data accumulated to permit a review of the regions and their county compositions over time, staff conducted annual year-to-year analyses of cost and population changes. Finding no significant changes, our analyses to date have concluded that the regions and county assignments developed in 2005 are still valid.

Annual Region Review

To examine the continued validity of the current regions for 2009, staff conducted a year-to-year analysis which:

- applied the methodology developed in 2004 to current data to produce updated county relative cost factors.
- analyzed the percent change for each county, comparing this year's updated cost factor to last year's factor.
- compared this year's region cost factor to last year's factor, for each of the five regions.
- analyzed the percent change in membership for each county and region.

Our analysis found no statistically valid changes in county or region cost factors, or in membership, and staff recommends no changes to the existing regions for 2009.

Future Analysis

Staff now has five years of data and can perform an analysis of the regions and their county compositions over several years, as suggested by CalPERS' actuarial consultants. In September 2008 staff will report any recommended changes to the regions for the 2010 rate year. This will permit the Committee and constituents time to review any recommendations, and give CalPERS staff and our plan partners adequate time to implement any changes the Board may enact for 2010.

V. STRATEGIC PLAN:

This is an information item reporting on the results of our annual review of CalPERS' regional pricing for contracting agencies. Regional pricing continues to be a useful strategy for stabilizing CalPERS' risk pool.

VI. RESULTS/COSTS:

This is an information item only.

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Attachment